
Supreme Court of the United States

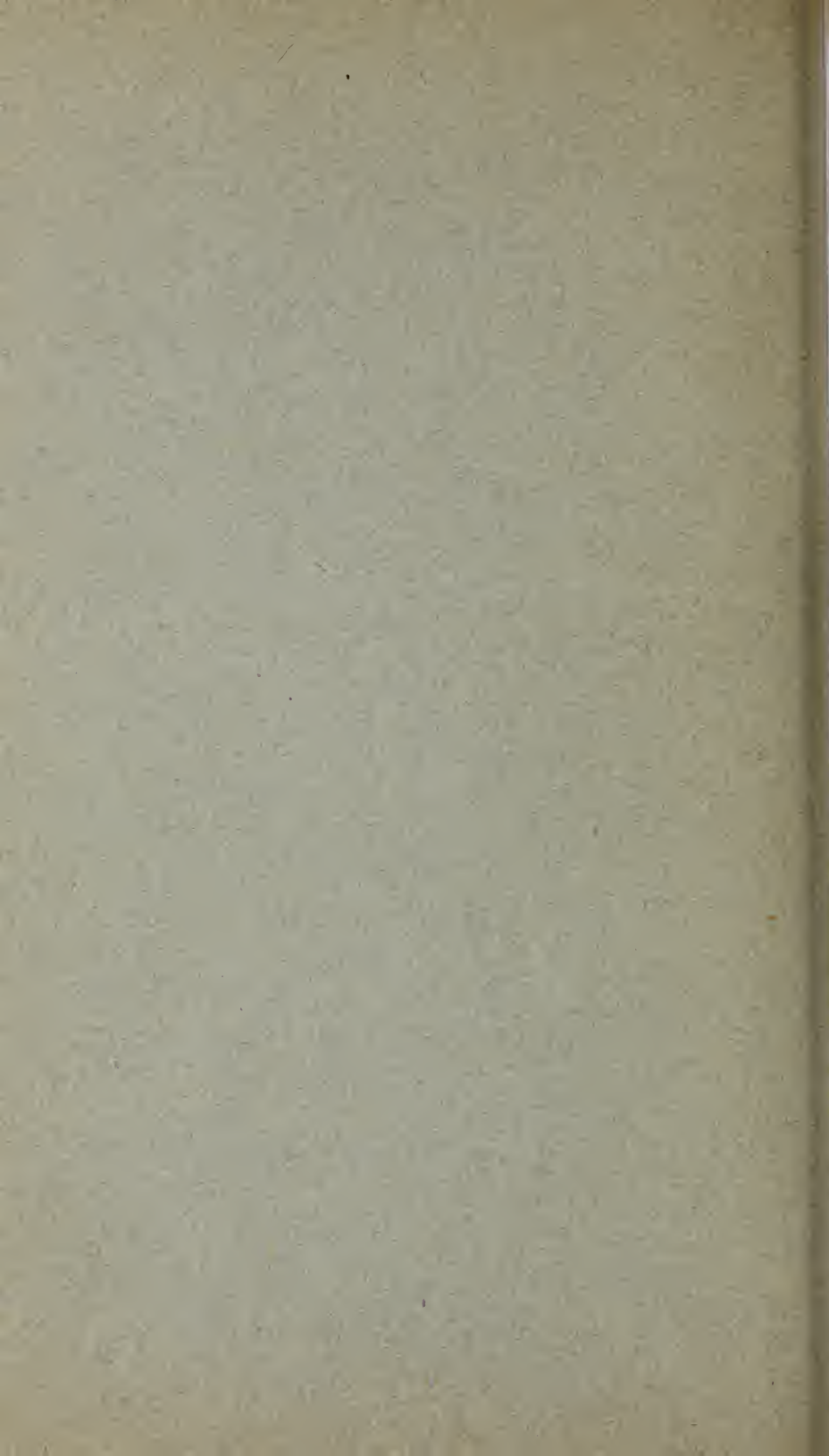
OCTOBER TERM, 1916.

MOTION PICTURE PATENTS COMPANY,
Petitioner,
against

UNIVERSAL FILM MANUFACTURING COMPANY,
UNIVERSAL FILM EXCHANGE OF NEW YORK,
and PRAGUE AMUSEMENT COMPANY,
Respondents.

**PETITION FOR WRIT OF CERTIORARI TO THE CIRCUIT
COURT OF APPEALS FOR THE SECOND CIRCUIT
AND BRIEF IN SUPPORT THEREOF.**

MELVILLE CHURCH,
Counsel for Petitioner,
McGill Building,
Washington, D. C.



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Supreme Court of the United States ¹

OCTOBER TERM, 1916.

MOTION PICTURE PATENTS COMPANY, Petitioner,	}	In Equity.
vs.		
UNIVERSAL FILM MANUFACTURING COMPANY, UNIVERSAL FILM EXCHANGE OF NEW YORK, and PRAGUE AMUSEMENT COMPANY, Respondents.	}	

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To Wetmore & Jenner, Counsel for Respondents:

Gentlemen:

Please take notice that a petition, praying for a writ of certiorari to the United States Circuit Court of Appeals for the Second Circuit, a copy of which is hereto annexed, will be submitted to the Supreme Court of the United States, for the decision of that Court thereon, on the 23rd day of October, 1916, at the Court Room, in the Capitol, in the City of Washington, District of Columbia, at the opening of the Court on that day, or as soon thereafter as counsel may be heard. ³

Dated, New York, October 6, 1916.

MELVILLE CHURCH,
Counsel for Petitioner,
McGill Building,
Washington, D. C.

Service acknowledged this 6th day of October, 1916.

WETMORE & JENNER,
Counsel for Respondents.

4

SUPREME COURT
OF THE UNITED STATES,

OCTOBER TERM, 1916.

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<p style="text-align: center;">MOTION PICTURE PATENTS COMPANY,</p>	}	
Petitioner,		
vs.		
UNIVERSAL FILM MANUFACTURING COMPANY, UNIVERSAL FILM EXCHANGE OF NEW YORK, and	}	In Equity.
PRAGUE AMUSEMENT COMPANY, Respondents.		

**Petition for Writ of Certiorari from
the Supreme Court of the United
States to the United States Circuit
Court of Appeals for the Second
Circuit.**

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To the Honorable, the Chief Justice and Associate
Justices of the Supreme Court of the United
States:

Your petitioner, MOTION PICTURE PAT-
ENTS COMPANY, respectfully represents:

I. That it is a corporation duly created and
existing under the laws of the State of New Jersey.

II. That it is the owner of patent No. 707,934,
granted to Woodville Latham, August 26, 1902
(upon an application filed June 1, 1896), for Im-
provements in Projecting Kinetoscopes, or what

have come to be known as "Motion Picture Project-
ing Machines." This patent describes and claims
novel means for moving a quantity of motion
picture film having considerable bulk through a
motion picture machine, with an intermittent
movement, in such manner as not to expose the
film to excessive strain and wear and tear, and
with a regular, uniform and accurate feed. 7

III. That your petitioner has not itself made,
used or sold machines embodying the invention of
said patent, but has sought to derive its profit
from said patent (1) by licensing the *manufacture*
of such machines by others on payment of a small
royalty, and (2) by licensing the *use* of such ma-
chines by the purchasers thereof on payment of
a small additional royalty *while in use*. 8

IV. That pursuant to its above outlined policy
petitioner, on June 12, 1912, granted to the Preci-
sion Machine Company, a corporation of New
York, the right and license

(page 1077, C. C. A. Record)

"to manufacture and sell motion picture ex-
hibiting or projecting machines embodying one
or more of the inventions described in the said
United States Letters Patent Nos. * * *
707,934 * * *

coupled with the restriction that each machine
put out by the licensee should be sold only

(page 1080)

"under the restriction and condition that such
exhibiting or projecting machines shall be used

- 10 (1) solely for exhibiting or projecting motion pictures containing the invention of reissued letters patent No. 12,192, leased by a licensee of the licensor while it owns said patents, and (2) upon other terms to be fixed by the licensor and complied with by the user while the said machine is in use and while the licensor owns said patents (which other terms shall only be the payment of a royalty or rental to the licensor while in use),”

provided that

- 11 (page 1081)

“the licensee further covenants and agrees that the licensee will attach in a conspicuous place to each and every exhibiting and projecting machine of the licensee’s manufacture, sold by the licensee, except for export, after the date hereof, a plate showing plainly not only the dates of the letters patent under which the said machine is licensed, but also the following words and figures :

- 12
- | | |
|------------|-----|
| SERIAL NO. | |
| PATENTED | NO. |

The sale and purchase of this machine gives only the right to use it solely with moving pictures containing the invention of re-issued patent No. 12,192, leased by a licensee of the Motion Picture Patents Company, the owner of the above patents and reissued patent, while it owns said patents, and upon other terms to be fixed by the Motion Picture Pat-

ents Company and complied with by the user while it is in use and while the Motion Picture Patents Company owns said patents. The removal or defacement of this plate terminates the right to use this machine.” 13

The license further provided that the licensee manufacturer should pay the licensor

(page 1079)

“on each such machine capable of exhibiting or projecting by transmitted light, motion pictures on film of a width greater than approximately one inch (1 in.) a royalty of five dollars (\$5).” 14

V. That every machine put out by the Precision Machine Company under its said license from your petitioner had attached to it the agreed license plate bearing the words set forth in the license, said license plate purporting to have emanated from your petitioner (page 1073).

VI. That the respondent, Prague Amusement Company, since November 2, 1914, has, without payment of royalty to your petitioner, been using a machine procured from petitioner's licensee, Precision Machine Company, and bearing the license plate aforesaid (pages 63, 736), in connection with unlicensed film made by the respondent, Universal Film Manufacturing Company (pages 736, 746), the said unlicensed film so made having been delivered to the respondent, Universal Film Exchange of New York (pages 736, 748) and by the 15

16 latter delivered to the respondent, Prague Amusement Company for use by the latter, as aforesaid.

VII. That notice of the fact that Precision Machine Company was a licensee of your petitioner and of the terms and conditions under which alone the said machine put out by it under its license could be used, was brought home to the respondent, Prague Amusement Company, by the notice itself on the license plate attached to said machine, and that specific notice that the said machine was being used in an infringing manner was given to all the respondents (pages 745, 746, 748, 753, 735 and 59),
 17 but thereafter and in disregard of said notice respondents continued their said infringing practices.

VIII. That on the 18th day of March, 1915, your petitioner filed in the United States District Court for the Southern District of New York, its bill of complaint against the respondents, Universal Film Manufacturing Company, Universal Film Exchange of New York, and Prague Amusement Company, alleging infringement of its said patent.

IX. That the said respondents duly filed their answer to said bill of complaint, and at the trial
 18 urged in defense, *inter alia*, a license in the Prague Amusement Company to use the said machine furnished it by Precision Machine Company, and the alleged illegality of the conditions of use imposed by the agreement between your petitioner and Precision Machine Company and by the license plate attached to the said machine itself.

X. That respondent's contentions were sustained by the District Court, Judge Hough presiding, and petitioner's bill was dismissed; and that the United States Circuit Court of Appeals for the Second Cir-

cuit, on appeal, affirmed said decree (page 1499) and denied an application for a rehearing (page 1512). 19

Copies of the opinions filed in the District Court and in the Court of Appeals are appended hereto, the opinion of the District Court being marked "Exhibit A"; the opinion of the Court of Appeals on the original hearing being marked "Exhibit B," and the opinion of the Appellate Court on the rehearing being marked "Exhibit C."

XI. That consideration of these opinions shows that petitioner's contention as to infringement is and has always been that the use of the Precision machine by the respondent, Prague Amusement Company, was an unauthorized one and therefore an infringement of the Latham patent, because, in using said machine the Prague Amusement Company did not comply with the following conditions of use imposed by petitioner upon users of machines, namely: 20

License Condition No. 1. That the machine should be used only with motion pictures leased from a manufacturer licensed by the petitioner; and 21

License Condition No. 2. That the user of the machine should pay to petitioner a royalty or rental (to be fixed by petitioner) while the machine was in use.

XII. That non-compliance by respondent, Prague Amusement Company, with either condition, resulted, as petitioner claims, in an unauthorized use of the machine, and therefore an infringement of the Latham patent.

- 22 Both of these conditions the Court of Appeals holds are unlawful and unenforceable, and as constituting no lawful restriction upon the right of use of the machine purchased from the Precision Company.

- XIII. That your petitioner contends that the said conditions of use imposed are lawful within the principles laid down by this Court in *Henry vs. Dick*, 224 U. S., 1, and by the Court of Appeals for the Second Circuit in *Victor Talking Machine Co. vs. Straus*, 230 Fed., 449; while the Court of Appeals holds that the *Dick* case is inapplicable and that the case of *Bauer vs. O'Donnell*, 229 U. S., 1, is controlling, especially in view of the Clayton Act, of October 15th, 1914 (38 Stat. at L., pages 730, 731).
- 23

- XIV. That the Victor Talking Machine case referred to is now before this Court for review, on certiorari, being case No. 374 on the docket, and your petitioner contends that if the principles held by the United States Circuit Court of Appeals for the Second Circuit to be controlling in that case are upheld by this Court they will require a determination favorable to petitioner in this case if the same is taken up by this Court for review.
- 24

XV. For these reasons and because the decree of the Court of Appeals in this case is believed to have been erroneous and contrary to right, your petitioner prays that a writ of certiorari may be issued out of and under the seal of this Court directed to the said United States Circuit Court of Appeals for the Second Circuit demanding the said

Court to certify and send to this Court, on a day 25
 certain to be therein designated, a full and com-
 plete transcript of the record of all proceedings in
 said Circuit Court of Appeals in the said case
 therein entitled Motion Picture Patents Company,
 complainant-appellant, vs. Universal Film Man-
 ufacturing Company, Universal Film Exchange of
 New York, and Prague Amusement Company,
 defendants-appellees, and which was In Equi-
 ty, No. 248, of the October Term, 1915, of
 said Court, to the end that the said case
 may be certified and determined by this Court as
 provided in Section 240 of the Act of Congress en- 26
 titled "An act to codify, revise and amend the laws
 relating to the judiciary, approved March 3, 1911,"
 and your petitioner further prays that the said de-
 cree of said Circuit Court of Appeals in the said
 case, and every part thereof, may be reversed by
 this Court, and that your petitioner may have such
 other and further relief or remedy in the premises,
 as to this Court may seem appropriate and in con-
 formity with the judiciary act.

Dated, New York, N. Y., October 6, 1916.

MOTION PICTURE PATENTS COMPANY, 27
 By George F. Scull,
 Vice President.

MELVILLE CHURCH,
 Counsel for Petitioner.

28 State of New York }
 County of New York } ss. :

George F. Scull, being duly sworn, deposes and says that he is the Vice President of Motion Picture Patents Company, the petitioner herein; that he has read the foregoing petition by him subscribed and knows the contents thereof and that the same is true of his own knowledge except as to the matters therein stated to be on information and belief, and as to those matters he verily believes it to be true.

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GEORGE P. SCULL.

Sworn to and subscribed before me this 6th day of October, 1916.

GEORGE E. BROWN,
 Notary Public, Richmond County,
 Certificate filed in New York County No. 179,
 (Seal) New York Register No. 7223,
 Term expires March 30, 1917.

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Exhibit A.

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DISTRICT COURT OF THE UNITED STATES,

Southern District of New York.

MOTION PICTURE PATENTS COM-
PANY

VS.

UNIVERSAL FILM MANUFACTUR-
ING COMPANY, UNIVERSAL FILM
EXCHANGE and PRAGUE AMUSE-
MENT COMPANY.

32

Final hearing in Equity; action on Patent
707934.

GEORGE F. SCULL and MELVILLE CHURCH, Esqrs.,
for Plaintiff;

OSCAR W. JEFFERY and EDMUND WETMORE, Esqrs.,
for Defendants.

Memorandum.

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This decision is filed because the discussion at bar has not been preserved by the stenographer, and it seems advisable to put on file my reasons for decision in order that the decree may not be misleading.

The following facts appeared: Plaintiff is the owner by assignment, not only of the patent in suit, but of many other patents relating to what is commonly called the Moving Picture art.

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It entered into an agreement with the Precision Machine Company by which it gave the Machine Company "subject to the covenants, conditions and stipulations hereinafter expressed, the right and license * * * to manufacture and sell picture exhibiting or projecting machines embodying" the invention described in the patent in suit and many other patents. One of the covenants assumed by the Precision Company in respect of machines so sold was that it would "pay royalties as follows," viz., \$5 on each machine of one type, and 3% of the "net retail selling price" on machines of other types.

Under the contract this was the only royalty or remuneration collectible by the plaintiff herein from the Precision Company.

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The latter Company, however, further covenanted that every machine (of the type here presented) made by it "in the United States" should be "sold * * * under the restriction and condition that such * * * machine shall be used solely for exhibiting or projecting motion pictures containing the inventions of re-issued Letters Patent No. 12192, leased by a licensee of the (plaintiff herein) while it owns (the patent in suit), and upon other terms to be fixed by (the plaintiff herein) and complied with by the user while the said machine is in use and while the (plaintiff owns the patent in suit),—which other terms shall only be the payment of a royalty or rental to the (plaintiff herein) while in use."

The Precision Company further agreed to attach on each machine so manufactured and sold, a plate showing the Letters Patent under which the said

machine was licensed (including the patent in suit), and also the following legend:

“The sale and purchase of this machine gives only the right to use it solely with moving pictures containing the invention of Reissued Patent No. 12,192, leased by a licensee of the Moion Picture Patents Company, the owner of the above patents and reissued patent, while it owns said patents, and upon other terms to be fixed by the Motion Picture Patents Company and complied with by the user while it is in use and while the Motion Picture Patents Company owns said patents. The removal or defacement of this plate terminates the right to use this machine.”

Subsequent to the execution of this agreement Reissued Letters Patent 12,192 expired and the invention thereby covered became public property.

Subsequent to such expiration of said patent the defendant Universal Film Manufacturing Company made a reel of film which embodied the invention of said expired re-issued Letters Patent. That film it sold to the defendant the Universal Film Exchange, which in turn furnished it for use to the defendant the Prague Amusement Company.

Also subsequent to the expiration of said re-issued Letters Patent the 72d Street Amusement Company was lawfully in possession of a machine suitable for exhibiting picture film made and sold by the Precision Machine Company embodying the invention of the patent in suit and bearing upon it a plate with the inscription hereinabove set forth.

The 72d Street Amusement Company had as

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between itself and the Precision Company bought and paid for said machine, and its possession and use thereof were, so far as the Court is informed, lawful and uncomplained of. On November 2d, 1914, the defendant Prague Amusement Company leased from the 72d Street Amusement Company certain property including said machine, and thereafter used said machine for the exhibition of the picture film hereinabove referred to as made by one defendant, sold to the second and leased to the third.

41

This act, viz: the exhibition of said film through, with or by means of said machine, is the act of infringement complained of.

Being of opinion that the limitation on the use of a patented article sold in the manner above set forth is invalid, I have directed a decree to be entered dismissing the bill on that ground alone.

Briefly stated, my reasons for this opinion are that there is no distinction, logical or intelligible, to be drawn between a limitation upon the re-sale of a patented article and a limitation upon the use of a patented article contained in a condition subsequent to the contract of sale.

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Referring to the decisions, it was my opinion that *Bauer vs. O'Donnell* is so inconsistent with *Dick vs. Henry* that the latter case can no longer be considered as stating the law. This belief I had intimated already in *Great Atlantic &c. Co. vs. Cream of Wheat Co.*, 224 Fed. Rep., at page 559.

The foregoing is a summary of what occurred at bar.

Subsequent to decision rendered, defendants offered a final decree for signature, and plaintiff moved for a re-argument.

The substance of the error said to have been committed is a failure to distinguish between the property in a corporeal thing, eg. a patented machine, and that incorporeal hereditament which is the use of the aforesaid corporeal substance, or the machine.

That error (in the sense of belonging to the minority) may have been committed herein is quite likely, but the point has not been overlooked.

It remains my opinion:

(1) That such attempted severance between corporeal and incorporeal property cannot be lawfully maintained under the patent laws,—nor asserted in an action on the patent,—whatever may be the ultimate limit of permitted contractual arrangements; and also

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(2) That the attempted reservation or severance here shown is specifically bad in that it attempts not only to confine the use of a machine once sold and delivered to a particular kind of film, but further seeks to render that use subject to any and every restriction or regulation which the patent owner may from time to time choose to make or vary.

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The reargument is denied and decree signed.

Dec. 31, 1915.

C. M. HOUGH,
U. S. D. J.

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Exhibit B.UNITED STATES CIRCUIT COURT OF
APPEALS,

FOR THE SECOND CIRCUIT.

No. 248—October Term, 1915.

Argued April 4, 1916. Decided June 15, 1916.

Before—COXE and ROGERS, Circuit Judges, and
AUGUSTUS N. HAND, District Judge.

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MOTION PICTURE PATENTS
COMPANY,
Complainant-Appellant,

vs.

UNIVERSAL FILM MANUFACTURING
COMPANY, UNIVERSAL FILM
EXCHANGE OF NEW YORK, and
PRAGUE AMUSEMENT COMPANY,
Defendants-Appellees.

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Appeal from
the District
Court of the
United States
for the South-
ern District of
New York.

Appeal from the District Court of the United States for the Southern District of New York. This cause comes here on an appeal from a decree entered by the District Court of the United States for the Southern District of New York, dismissing the complainant's bill. The complainant is the owner of the patent in suit (No. 707,934) for Mo-

tion Picture Projecting Machines, and on June 12, 1912, granted to the Precision Machine Company a license to manufacture and sell these machines for not less than \$150 per machine, and at a royalty of \$5 to the licensor each, with the further restriction that each machine put out by the licensee shall be used (1) solely for exhibiting or projecting motion pictures containing the invention of re-issued Letters Patent No. 12,192 leased by a licensee of the licensor while it owns said patent and (2) upon other terms to be fixed by the licensor and complied with by the user while the said machine is in use and while the licensor owns said patents (which said other terms shall only be the payment of a royalty or rental to the licensor while in use).

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The license also provided that a plate should be attached to each machine and such plate was attached in the following form :

" Mfr's	Special
"Serial No.	License No.
" 3557	3666

"made THE PRECISION MACHINE COMPANY	51
" by Patented.	

"No. 576,185, March 2, 1897.

"No. 580,749, April 13, 1897.

"No. 586,953, July 20, 1897.

"No. 673,329, April 30, 1901.

"No. 673,992, May 14, 1901.

"No. 707,934, August 26, 1902.

"No. 722,382, March 10, 1903.

" The sale and purchase of this machine gives
 "only the right to use it solely with moving pictures

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“containing the invention of Reissued Patent No. 12,192, leased by a licensee of the Motion Picture Patents Company, the owner of the above patents and reissued patent, while it owns said patents, and upon other terms to be fixed by the Motion Picture Patents Company and complied with by the user while it is in use and while the Motion Picture Patents Company owns said patents. The removal or defacement of this plate terminates the right to use this machine.

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“ MOTION PICTURE PATENTS COMPANY,
New York, N. Y., U. S. A.”

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Reissued Letters Patent No. 12,192 expired subsequent to the execution of the license by the complainant to the Precision Machine Company, thereupon the Universal Film Manufacturing Company made a film embodying that invention, and sold it to the Universal Film Exchange, who furnished it for use to the Prague Amusement Company. The 72nd Street Amusement Company became the lawful possessor of a moving picture machine made by the Precision Machine Company. The defendant, Prague Amusement Company, leased the machine from the 72nd Street Amusement Company and used the film furnished to it by the Universal Film Exchange upon the machine in question. The use of the film upon the machine is the act of infringement alleged. The defendants set up three defenses: (1) That the restrictions in the contract of license to the Prague Amusement Company are contrary to public policy, illegal and void, and the machine, therefore, is free from the burden of them.

(2) That there is no proof of joint infringement as alleged. (3) That the patent is invalid.

MELVILLE CHURCH and GEORGE F. SCULL, Counsel for Appellant.

EDMUND WETMORE, JOHN B. STANCHFIELD and OSCAR W. JEFFERY, Counsel for Appellees.

AUGUSTUS N. HAND, District Judge:

It was held by this Court in the case of *Victor Talking Machine Company vs. Straus*, 230 Fed., 449, that a license to use a patented talking machine upon payment of an initial royalty to cover the life of the patent and upon condition that the licensee purchase all sound records to be used with the machine from the licensor was valid, even though the license provided that title to the machine should pass to the licensor upon the expiration of the patent if the terms of the license had been observed. The present case differs from that case because here the title to the machine at once passed by the sale of the projecting machine to the 72nd Street Amusement Company. We think this case comes within the doctrine of *Bauer vs. O'Donnell*, 229 U. S., 1, rather than that of *Dick vs. Henry*, 224 U. S., 1. This is especially true since the enactment of the so-called Clayton Bill, which provides:

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“That it shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented, for use, con-

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sumption or resale within the United States, or any territory thereof * * * on the condition, agreement or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce."

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This Act was not regarded as applicable either in the District Court, or in this Court, in the case of *Victor Talking Machine vs. Straus, supra*, because that case was decided upon a demurrer to the bill upon the face of which no substantial restraint of competition or monopoly in any line of commerce appeared. Here, however, the testimony shows that the complainant has a monopoly under its patents of projecting machines so that if no films not manufactured by complainant can be used upon these machines, the complainant will obtain an absolute monopoly of the film business in spite of the fact that its patent on films has expired. If the prohibitions of the Clayton Act mean anything at all this case falls within them and the restrictions as to the use of films other than complainant's with the projecting machines are, therefore, void. Indeed, the Report of the Judiciary Committee of the House concerning the Clayton Act shows that its purpose is to reach the film monopoly. A portion of this report, quoted by Judge

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Dyer in his opinion in *United States vs. United Shoe Machinery Co.*, 227 Fed., 507, is as follows:

“Where the concern making these contracts is already great and powerful, such as the United Shoe Machinery Company, the American Tobacco Company, and the General Film Company, the exclusive or ‘tying’ contract made with local dealers becomes one of the greatest agencies and instrumentalities of monopoly ever devised by the brain of man. It completely shuts out competitors, not only from trade in which they are engaged already, but from the opportunities to build up trade in any community where these great and powerful conditions are appearing under this system and practice.”

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Judge Sessions has held in the case of *Elliott Machine Co. vs. Center*, 227 Fed., 126, that this act applies to contracts made before the passage of the act, and we think his opinion justified by decisions of the Supreme Court on which he relied. *Louisville & Nashville Railroad Co. vs. Mottley*, 219 U. S., 467; *Armour Packing Co. vs. United States*, 209 U. S., 56; *Philadelphia, Baltimore & Washington R. R. vs. Schubert*, 224 U. S., 603. In the case of *United States vs. United Shoe Machinery Company*, 227 Fed., 507, Judge Dyer reached the same conclusion in regard to the Clayton Act.

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Inasmuch as the contract with the Precision Machine Company involved and restrained interstate commerce, it makes no difference that the particular act of infringement occurred within the State

of New York, and the prohibitions of the Clayton Act apply.

Marienelli vs. United Booking Offices, 227
Fed., 170;
Nash vs. United States, 229 U. S., 373.

65 It is urged that the defendant, Prague Amusement Company, cannot rely upon the license and repudiate its terms. It does not rely upon the license, but obtained a lease of the machine from the owner, the 72nd Street Amusement Company, which acquired it after having paid the purchase price, and thus freed the machine from the unlawful restrictions. The remarks of this Court upon the motion for a stay pending the decision of the appeal from Judge Dickinson's decree in the criminal prosecution for violation of the Sherman Act, 225 Fed., 800, would be applicable to the case if the restrictions we have held illegal had been held valid. Then it would have been true that the defendant who was using the patented article under a license could not question the validity of the patent, or claim it lacked invention. These remarks are not applicable when the restrictions are held invalid and the article having been thus freed from all restrictions may be used at the will of the licensee.

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In view of the foregoing considerations it is unnecessary to discuss the other defenses raised by the defendants, and the decree dismissing the bill is affirmed.

Exhibit C.

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UNITED STATES CIRCUIT COURT OF
APPEALS,

FOR THE SECOND CIRCUIT.

No. 248—October Term, 1915.

Petition filed June 26, 1916. Decided Aug. 4, 1916.

Before—COXE and ROGERS, Circuit Judges, and
AUGUSTUS N. HAND, District Judge.

MOTION PICTURE PATENTS
COMPANY,

Complainant-Appellant,

vs.

UNIVERSAL FILM MANUFACTURING
COMPANY, UNIVERSAL FILM
EXCHANGE OF NEW YORK, and
PRAGUE AMUSEMENT COMPANY,
Defendants-Appellees.

Appeal from
the District
Court of the
United States
for the South-
ern District of
New York.

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PETITION FOR RE-HEARING.

PER CURIAM:

The appellant seeks a re-argument upon the question whether the Prague Amusement Company did not infringe by not complying with the condition as to royalty or rental imposed by the appellant on users of machines manufactured under its licenses.

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The sale of the projecting machine carried with it, in the absence of any restriction, an implied license of use. *Mitchell vs. Hawley*, 16 Wall., at page 547. The notice which was attached attempted to impose the condition that it should only be used with films containing the invention of a patent which had expired "and upon other terms to be fixed by the Motion Picture Patents Company." The condition as to use only with the specified films we have held illegal for the reasons given in our opinion heretofore rendered. The condition as to which a re-argument is desired relating to a continuing royalty was not brought to the notice of the defendants and cannot, therefore, be regarded as limiting the implied license which accompanied the sale of the machine. (*Cortelyou vs. Johnson*, 207 V. S., 196; *Lovell-McConnell Mfg. Co. vs. Waite Auto Supply Co.*, 198 Fed., 133.) The clause "upon other terms to be fixed" in no way specified the nature of these terms and in particular in no way mentioned a continuing royalty, or the amount thereof. There is no evidence, moreover, that any "other terms" were ever fixed or demanded. We think such a vague condition insufficient to limit the implied right of user passing to the vendee of the machine, and consequently unenforceable.

The appellant offered evidence at the trial, which was excluded, that the Prague Amusement Company had knowledge of the terms upon which the Motion Picture Patents Company was accustomed to grant permission to use a machine put out by its licensed manufacturers, but this evidence, had it been allowed, would not have obviated the difficulty with the form of the notice. If the terms that were customary had been known, there

was nothing in the notice or elsewhere to prevent the appellant from varying the royalty as to nature or amount. Such a condition is too indefinite for enforcement, though a notice of a precise amount to be paid might be perfectly good. The notice affixed to the machine was so broad as to allow the patentee to fix any terms he might choose and to be repugnant to all rights which the owner of the machine might have obtained by his purchase and implied license.

The motion for re-argument is denied.

SUPREME COURT OF THE UNITED STATES,

OCTOBER TERM—1916.

MOTION PICTURE PATENTS COMPANY, Petitioner,	}	In Equity.
vs.		
UNIVERSAL FILM MANUFACTURING COMPANY, UNIVERSAL FILM EXCHANGE OF NEW YORK, and PRAGUE AMUSEMENT COMPANY, Respondents.	}	

BRIEF FOR PETITIONER.

The following points are urged in support of the foregoing petition:

I. Petitioner did not make, or sell the machine whose use is claimed to be an infringement. It was made by a manufacturing concern that was authorized by the petitioner to make it and that was authorized by the petitioner to sell it for use only upon compliance with certain conditions specified and brought home to the purchaser.

II. The patented machine is a machine for projecting motion pictures and is usable only in connection with motion picture films consisting of long strips of transparent material of indefinite length bearing a succession of photographic impressions of objects in motion.

III. The purchaser of the machine was apprised by the license plate attached to the machine that he could not lawfully use it (1) save with motion picture film leased by a licensee of petitioner and (2) "upon other terms to be fixed" by the petitioner "and complied with by the user while it is in use."

IV. The first condition relating to the use of the machine only in connection with film obtained from specially designated parties has been decided by the Court of Appeals to be a condition violative of the Clayton Act and, therefore, void and unenforceable.

Petitioner, however, denies that this is so, and contends that such condition is lawful and enforceable under the decision of this Court in *Henry vs. Dick*, 224 U. S., 1, and that the Clayton Act is inapplicable, because the petitioner is not "engaged in commerce," within the meaning of the Act, but is a mere holding company whose sole property, patents, is of an incorporeal, intangible nature (*De La Verne Machine Co. vs. Featherstone*, 147 U. S., 209-222) and not susceptible of being made the subject of commerce, within the meaning of the Act, or of the Constitutional provision of which the Act is predicated.

V. The second condition, however, relating to the right of the purchaser to use the patented machine only upon compliance with "other terms to be fixed" by petitioner, is not contended, by any one, to be violative of the Clayton Act and depends for its validity upon its intrinsic merits.

It is not denied that the name plate and the matter inscribed upon it—still on the machine—

were brought to the purchaser's attention, but it is urged by the respondents and by the Courts below, that the notice itself is insufficient because in its reference to the "other terms to be fixed" by the petitioner and to be "complied with by the user while the machine is in use," it does not set out, in detail, what those terms and conditions are.

In this Court citation of authority is hardly needed for the proposition that

"Whatever is notice enough to excite attention and put the party on his guard and call for inquiry is notice of everything to which such inquiry might have led. When a person has sufficient information to lead him to a fact, he shall be deemed conversant of it."

Wood vs. Carpenter, 101 U. S., 135-141.

Shauer vs. Alterton, 151 U. S., 607-622.

When, therefore, the purchaser of the machine in question saw from a perusal of the name plate notice that he could only use it "upon terms to be fixed by the Motion Picture Patents Company and complied with by the user while it is in use" and saw from the plate that the notice was subscribed "Motion Picture Patents Company, New York, N. Y., U. S. A.," he was put upon inquiry and placed under the legal obligation to seek the Motion Picture Patents Company, at the address given, and ascertain upon what terms he could lawfully use the machine obtained by him from that company's licensee, and he cannot now be heard to say that he did not know what those terms were, when upon inquiry he could have read-

ily ascertained; and to proceed with a use of the machine that was not authorized was to infringe the patent.

The record clearly shows that the terms of use which the prosecution of such an inquiry would have developed would have been

“only the payment of a royalty or rental to the licensor while in use,”

as specifically provided in petitioner's license agreement with the Precision Machine Company, the manufacturer and seller of the machine purchased (page 1081, fol. 3241).

VI. This case, therefore, presents for the determination of this Court the following questions of great public concern, viz.:

1. Whether or not a corporation which is a mere patent-holding company, and that neither makes, uses nor sells the patented article, but only licenses others to make and sell such article under restrictions as to use, is “engaged in commerce,” within the meaning of the Clayton Act and of the Commerce Clause of the Constitution of which it is predicated.

2. Whether or not the restrictions as to the use of a patented article imposed upon a purchaser at the time of the purchase of such article, recognized by this Court as valid and enforceable in *Henry vs. Dick*, 224 U. S., 1, are still valid and enforceable under the later decision of this Court in *Bauer vs. O'Donnell*, 229 U. S., 1.

3. Whether or not notice of conditions or restrictions as to use applied to a patented article, such as present in this case, is sufficient to put a purchaser of the article upon inquiry and to charge him with notice of the facts which such inquiry would have developed, and render him guilty of infringement for a use without compliance with such conditions.

Since the case of *Straus et al. vs. Victor Talking Machine Company* (No. 374), now before this Court on certiorari, calls for an interpretation by this Court, for the first time, of the Clayton Act, and its bearing upon the rights of patents owners, and also calls for a pronouncement as to the effect of the decision in *Bauer vs. O'Donnell*, 229 U. S., 1, upon the decision in the earlier case of *Henry vs. Dick*, 224 U. S., 1, it is conceived that the Court may not be unwilling to also take and review this case, which presents much the same questions upon only a slightly different state of facts.

An authoritative determination by this Court of these very much discussed questions will render patent owners more certain and secure in their rights than at present.

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